

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: September 3, 2004

PAYROLL LETTER # 04-012
(Civil Service Only)

TO: All Agencies in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief
Personnel/Payroll Services Division

RE: **ACCOUNTS RECEIVABLE (AR) OFFSET – LEAVE CREDIT USE PROCESS**

This letter replaces Payroll Letter 03-025 dated December 9, 2003 and supercedes specific information contained in PML 2004-038 dated August 13, 2004 as noted.

PROCESS DESCRIPTION

The AR Offset – Leave Credit Use process allows employees to use existing leave credits to satisfy an outstanding AR via a payroll deduction method.

ELIGIBLE EMPLOYEES

Per contracts effective July 3, 2001 Bargaining Unit's 05 and 06 employees are eligible. Per contracts effective July 3, 2003 Bargaining Unit's 01, 04, 11, *14, 15, 19 and *20 employees are eligible.

** Per DPA, this information supercedes instructions contained in PML 2004-038,
dated August 13, 2004.*

THE LEAVE CREDIT USE PAYMENT AND THE CHANGE METHOD OF COLLECTION REQUESTS

Before the AR Offset – Leave Credit Use Process can be requested to satisfy the AR, the AR must already be established in the SCO Payroll System as an agency collection AR. There is no restriction regarding what pay period the AR is established against, however, outstanding ARs eligible for this process must have been established on or after an employee's BU contract effective date.

ARs established for payment types 6 and N (IDL pay) cannot be satisfied using this process.

Requests must be submitted within the three year statute of limitations from the establishment date of the AR, pursuant to AB 1283. Please refer to PPM Section I for further AR information and exemptions.

Once the AR is established in the payroll system, a STD.674AR form must be submitted to SCO. A separate STD.674AR form is required for each AR being satisfied via this process. The STD.674AR form must:

1. Request the AR method of collection be changed from agency collection to payroll deduction.
2. Request the leave credit payment, for the most current pay period.

Payroll operations staff will then manually process the two requests concurrently to ensure the collection of the AR ('035' deduction code) applies against the leave credit payment. This will ensure that any proper reduction in the taxable gross of the leave payment occurs. To prevent any overpayments from issuing, the payment type G, payment type suffix S (Earnings ID GS) used to issue the leave credit payment, has been modified so that it will not work without the deduction code '035'. Once the deduction code '035' is withheld from the leave credit payment, any balance remaining is issued to the employee.

LEAVE BALANCES & TYPES AVAILABLE FOR USE WITH THIS PROCESS

The employee's current leave balance that exists at the time the leave credit payment request is submitted to SCO is available to be cashed out*. The following is a list of leave types eligible for cash out for this process:

Annual Leave	*Personal Leave Program
CTO	*Personal Leave Program 2003
Excess Hours	*Personal Leave Time
Holiday Credit	Professional Leave
Medical Officer of the Day	Vacation
On Call Assignment	*Voluntary Personal Leave
Personal Holiday	Voluntary Time (V-Time)
*Personal Day	

** Per DPA, this information supercedes instructions contained in PML 2004-038, dated August 13, 2004.*

TAXES, RETIREMENT & GARNISHMENTS

The leave credit payments are subject to Social Security and Medicare tax withholding, when applicable. ARs that do not have a taxable gross for the '035' deduction code to reduce, and payments with any remaining balance issued to the employee are taxable at the flat tax rate for federal and state taxes. These payments are not subject to retirement contributions. The AR collection deduction code '035' has a higher priority than all garnishment deduction codes. Therefore, garnishments do not need to be considered when calculating the number of leave credits to cash out for an employee to satisfy their AR. However, if you cash out more hours than necessary, leaving a net balance, some garnishments may apply against that remaining balance.

LEAVE CREDIT PAYMENT CALCULATION

The leave credit payment is to be treated as any other regular payment and would be calculated using the current “Salary Total” or “Salary Full” rate for the employee at the time the leave credit payment is being requested*.

** Per DPA, this information supercedes instructions contained in PML 2004-038, dated August 13, 2004.*

To determine the number of leave credits an employee must cash out in order to generate monies equal to the net of the AR, the following calculations are to be used:

1. Determine the employee’s hourly salary rate by dividing the Salary Total rate by 173.33.

Example:

Salary Total rate of \$5,264 divided by 173.33 equals \$30.36928 hourly salary rate. Round the hourly rate to a two-decimal figure. If the third decimal figure equals 0 – 4, the second decimal figure remains as is, if it equals 5 – 9 the second decimal figure would round up one number. This hourly rate would round up from \$30.36928 to \$30.37.

For all BU 05 employees and BU 06 7k employees, please refer to departmental procedures.

2. For ARs with a taxable gross, determine the necessary gross to be cashed out to provide a net equal to the AR by dividing the AR net by the maximum Withholding Factor of:

92.35% if the employee pays Social Security and Medicare

98.55% if the employee pays Medicare only

100.00% (the exact AR net) if the employee pays neither Social Security nor Medicare

Examples:

Social Security & Medicare Formula

Gross	100.00%
Minus Social Security	6.20%
Minus Medicare	<u>1.45%</u>
Net	92.35%

Medicare only Formula

Gross	100.00%
Minus Medicare	<u>1.45%</u>
Net	98.55%

Since the taxable gross reported on the deduction code '035' will reduce the taxable gross of the leave credit payment, it is important to calculate the amount as closely as possible to ensure that the least amount of federal or state tax is withheld from the payment.

For ARs that do not have a taxable gross (such as ARs for pre-taxed Health, Dental or FlexElect Reimbursement Account adjustments), determine the necessary gross to be cashed out to provide a net equal to the AR by dividing the AR net by the maximum Withholding Factor of:

61.35% if the employee pays Social Security and Medicare

67.55% if the employee pays Medicare only

69.00% if the employee pays neither Social Security nor Medicare

Examples:

Pays Social Security & Medicare Formula

Gross	100.00%
Minus Federal Tax (flat tax rate)	25.00%
Minus State Tax (flat tax rate)	6.00%
Minus Social Security	6.20%
Minus Medicare	<u>1.45%</u>
Net	61.35%

Pays Medicare only Formula

Gross	100.00%
Minus Federal Tax (flat tax rate)	25.00%
Minus State Tax (flat tax rate)	6.00%
Minus Medicare	<u>1.45%</u>
Net	67.55%

Pays Neither Social Security nor Medicare Formula

Gross	100.00%
Minus Federal Tax (flat tax rate)	25.00%
Minus State Tax (flat tax rate)	<u>6.00%</u>
Net	69.00%

Note: The tax percentages used in the examples are based on the current tax rates. Social Security, Medicare, federal and state tax rates are subject to change. The percentages used in the calculations must be based on the current applicable tax rates.

3. Take the AR net amount and divide it by the formula percentage determined in step 2 above to calculate the gross amount of the payment needed to equal the AR net amount. Then divide the result by the net hourly rate determined in step 1 above to compute the hours of leave credits to be cashed out.

Example:

AR amount due of \$600.00 divided by a Withholding Factor of 0.9235 equals \$649.70221. This amount divided by an hourly rate of \$30.36928 equals 21.39340 hours.

AR Net	\$600.00000
Divide by Withholding Factor (step 2)	<u>0.9235</u>
Equals Gross Amount of Leave Credit Payment needed	\$649.70221
Divide by the Net Hourly Rate (step 1)	<u>\$30.37</u>
Equals Hours of Leave Credits to be cashed out	21.39289

According to the breakdown of fractional time listed below, these hours would round from 21.39289 to 21.50 hours of leave credits to be cashed out:

.01 - .25 = .25
.26 - .50 = .50
.51 - .75 = .75
.76 - .99 = 1.00

STD.674AR FORM COMPLETION

- BOX 1 Check the PPSD/PAYROLL OPERATIONS box
- Check the UNIT DESTINATION box depending on the type of AR that is being satisfied
- BOX 2 Complete using current employee information
- BOX 3 Complete using current employee information
- BOX 4 Complete using current employee information
- BOX 5 Check the ACCOUNTS RECEIVABLE box
- Check the FROM AGENCY COLLECTION TO PAYROLL DEDUCTION box and list the BALANCE TO BE COLLECTED NET.
- The REMARKS section should read:
- “Change AR method of collection. Leave credits cashed out to satisfy AR”

BOX 6 - A Complete the following information, if applicable, for the AR:

POSITION	PMT. TYPE
ISSUE DATE	PAY SUFFIX
PAY PERIOD	ADJ. CODE
SALARY TYPE	GROSS
SALARY FULL	NET PAY
GROSS TYPE	ACCT. REC. NO.

BOX 6 – B Complete the following information for the requested payment:

POSITION	GROSS TYPE
PAY PERIOD	PMT. TYPE
SALARY TYPE	PAY SUFFIX
SALARY FULL	ADJ. CODE
TIME WORKED	GROSS

Check the (NO.) DEDUCTIONS BEGINNING WITH PAY PERIOD box;
indicate the number '1' on the (NO.) line and state "Per Remarks" on the PAY
PERIOD line.

BOX 7 Complete the following information for the requesting department:

COMPLETED BY
TELEPHONE NUMBER AND EXTENSION
FROM (Agency Name)
AUTHORIZED SIGNATURE
DATE SIGNED

STD.674AR FORM SUBMISSION

The STD.674AR forms are to be submitted to:

State Controller's Office
Personnel/Payroll Services Division
P. O. Box 942850
Sacramento, CA 94250-5878
Attention: _____

The Unit Destination selected in Box 1 of your STD.674AR is the same Unit Destination that should be listed on the Attention line in the address above.

AR REVERSALS

When an employee uses leave credits to satisfy an AR that is subsequently reversed, the employee will be given the option by their department as to whether they will:

1. Keep the original leave credit payment and the subsequent payment generated by the deduction code '035' reversal.
2. Return the original leave credit payment and the subsequent payment generated by the deduction code '035' reversal to their department for redeposit and have the cashed out leave credits restored to their leave balances.

CLAS

For CLAS procedures please refer to CLAS Letter 03-003 Dated January 22, 2003. A new CLAS Letter, with additional instructions for this process, will be forthcoming.

A PPM revision will be forthcoming. General questions regarding this payroll letter should be directed to Sandra Young at (916) 324-1293 or via email at syoung@sco.ca.gov. For policy interpretation questions related to this program, please have your designated personnel office staff contact the Department of Personnel Administration's Personnel Services Branch at (916) 323-3343 or via email at PSB@dpa.ca.gov. Questions regarding form submission and completion should be directed to the Unit Liaison who will handle your request:

Payroll Liaison	(916) 323-3081
Disability Liaison	(916) 322-3619
Retirement Liaison	(916) 324-1471
Benefits Liaison	(916) 323-4718
W-2 Liaison	(916) 322-8100
Deductions Liaison	(916) 324-1981

JRH:SY:PMAB